
THE DEEP OFFSHORE AND INLAND BASIN PRODUCTION SHARING CONTRACTS (AMENDMENT) BILL.

The President recently sent the Deep Offshore and Inland Basin Production Sharing Contracts (Amendment) Bill, 2018 to the National Assembly for consideration and passage. The Bill seeks to amend Section 16 of the Deep Offshore and Inland Basin Production Sharing Contracts Act (Act) which was promulgated in 1999 and amended in the same year.

Section 16 of the Act provides for the periodic review of the Act to ensure that the Production Sharing Contracts (PSC) are economically beneficial to the government. Section 16 (1) provides that “The provisions of this Act shall be subject to review to ensure that if the price of crude oil at any time exceeds \$ 20 per barrel, real terms, the share of the government of the Federation in the additional revenue shall be adjusted under the production sharing contracts to such extent that the production sharing contracts shall be economically beneficial to the government of the Federation.” Sub-section 2 states that “Notwithstanding the provisions of subsection (1) of this section, the provisions of this Act shall be liable to review after a period of fifteen years from the date of commencement and every five years thereafter.”

The proposed Bill is an attempt by government to review a part of the Act since the Act was promulgated. The proposed amendment creates a new Section 16(3) which provides that “In accordance with the provisions of subsection (1) of this section – (a) a royalty rate of 50% shall apply for the additional revenue in the contract area of the production sharing contracts under this Act; and (b) the additional revenue shall be determined by the product of the volume of crude oil or condensate sold

and the difference between the actual nominal sales price of the oil or condensate and the nominal value of \$20 per barrel, (1993 real terms) shall be determined based on relevant US All items Consumer Price Index (CPI) as published by the US Bureau of Labour Statistics.”

If passed, the Bill will alter the economic dynamics of the PSCs. It will be recalled that the Petroleum Industry Fiscal Bill, one of the proposed Petroleum Industry Bills under consideration by the National Assembly, seeks to repeal the Deep Offshore and Inland Basin Production Sharing Contracts Act in its entirety. It is unclear if the National Assembly will consider both bills and we expect that, as it is the practice, all stakeholders in the PSCs will be provided the opportunity to present their views regarding the Bill.

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